# Exploring Refundable Tax Credits, the Federal Minimum Wage, and Whether They Merit Expansion

**An Honors Thesis (HONR 499)**

**by**

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## Abstract

As a fourth-year accounting and finance major, I have been exposed to debits, credits, balance sheets, income statements, profit & loss statements, amortization schedules, cost accounting systems, and depreciation methods, among many other things. To be certain, these are all useful tools and each item mentioned tells a story about the finances of individuals, investors, and companies in some way or another. And while all of these items mentioned have their own important place in the world of business, none of them quite touch on human behavior and the role it plays in everyday decision-making the way that taxation does. Tax law impacts the way people approach financial decision-making in a way that financial accounting, cost accounting, or audit work can never do. One of my primary interests in regard to tax law is refundable credits, particularly those that affect low-income individuals and households. The purpose of this paper is to explore why governments tax their constituents, the different types of tax systems a country can implement and how these systems affect a government's constituents differently, the history and purpose of refundable tax credits, just how much better off these refundable credits make low-income individuals, how the establishment of the minimum wage has impacted low-income individuals since its inception, and to explore whether U.S. lawmakers should consider expanding these credits and/or the minimum wage for the sake of low-income earners.

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**Process Analysis Statement**

If someone would have asked me a year ago what subject I thought I would perform my senior thesis on, I doubt I would have told that person "Refundable tax credits." However, the more I dug and the more I made myself think about a topic that I had learned about during my undergraduate career that made an impact on me, I kept coming back to the first income tax accounting class I took at the end of my junior year. I kept coming back to the chapter(s) in which we covered income tax credits for individuals; specifically, I was struck most by income tax credits that helped low income taxpayers. I found these tax credits (such as the Earned Income Tax Credit and the Child Tax Credit) interesting because before learning about them in class, I did not know these credits existed and I certainly did not know anything about what they did or, more importantly, who they helped. I have always had an interest in understanding how low-income citizens (especially those with children) make ends meet from one year to the next. I am also interested by the minimum wage and how it came to be established in the United States. My interest is especially piqued when I hear lawmakers discuss raising the rate, as I know doing so would impact so many more people than just the ones who currently make the minimum wage. When considering this, I suppose it is not so surprising that I wrote about the subject that I did. When I decided this was the direction that I was going to go in, I knew Dr. Stanfield was the right person to advise me, as he taught both of the income tax accounting classes that I took during my time as an undergrad and helped me learn and understand a great deal about tax law and wealth redistribution.

When I started doing research, I first searched for articles that discussed refundable tax credit expansion. I did this to see if this was a topic that was being thought about by people other than myself and to ensure that the research process for credible sources relating to the topic would not be strenuous. After I found a few relevant articles related to refundable tax credit expansion, I then looked for articles that talked about the minimum wage and its expansion. When searching for articles and sources that touched upon minimum wage expansion, I was pleasantly surprised to find a few sources that touched upon both refundable tax credit expansion and minimum wage expansion and how these might affect low-income earners differently. When I found these sources, it was like a huge weight was lifted off of my shoulders because I knew I was going to be able to find enough information on both refundable tax credits and the minimum wage. After that, I started to search for sources that touched upon tax as a broad subject, including sources that defined "taxation" and were able to provide context about why most governments levy taxes. When I finished that process, I then shifted my attention to finding sources that talked about the idea of vertical equity and how it is an important consideration to governments in deciding how to best tax their constituents. I then focused my research efforts towards the three tax classification systems: Progressive, Regressive, and Proportional. After I felt comfortable that I had enough research completed to adequately explain these three systems, I then focused on researching the Earned Income Tax Credit and the Child Tax Credit. I wanted to cite numerous sources related to these two refundable credits, as I knew understanding and adequately explaining these two credits was a critical element of my thesis. It is when I did this that I was able to find out about the LIFT The Middle Class Act Bill that was introduced to Congress in 2018. When I found out about this Bill, I quickly researched it and knew I had to include it in my paper. It was encouraging to me that after I decided to do research about refundable tax credits, I was able to find evidence that refundable tax credit expansion is being thought about and proposed by United States lawmakers.

By completing this thesis, I learned a few things about myself during this process. I learned that I do my best work when I am thinking about a subject that energizes me. I also learned that I did my best work when I went to the library for a few hours at a time and was able to do research and compose my thoughts uninterrupted. It was during these times that I could feel my paper coming together and my thoughts flowing freely.

I did deal with some challenges along the way. I knew I would be traveling a lot this semester, as I got to travel with the men's basketball program to away games as a student manager. I knew that I would need to be productive during bus and plane rides and that I could not let these experiences deter me from working on my thesis. While I was able to do this and to be productive during most road trips, I was not prepared for how difficult this was going to feel at times. There were days when I would go to class, go to basketball practice, and get on the bus without taking a break in between these activities. There were many times I felt like sleeping rather than working on homework or doing research for my thesis, but I was able to persist and do what I needed to do most times. From these experiences, I learned that the best place to do work is at the library, and not on a charter bus headed to Kalamazoo.

I hope this thesis means something to those out there who are focused on trying to get people out of poverty. I am aware that we will never be perfect and that there probably is never going to be a time in the United States where there is not some sort of income inequality or income gap. I do hope, however, that this thesis provides value to those trying to find solutions for people who work very hard but still barely find themselves above the poverty line.

I hope it provides insight for those who might be interested in learning about how refundable tax credits (that might be little more than an afterthought for some people) make up a substantial amount of income for others. I hope this thesis provides insight for those wanting to know more about the minimum wage and what an expansion to it might mean for low-income earners. Perhaps more than anything else, I hope this thesis helps continue the conversation we as human beings should be having about making sure those that make an honest effort and work to make a living are provided for and cared for.

## Introduction

What is taxation, one might ask? And why do governments tax their constituents? According to the Encyclopedia Britannica, taxation is the “imposition of compulsory levies on individuals or entities by governments” (Maria S. Cox, n.d.). Encyclopedia Britannica also goes on to state that taxes “are levied in almost every country of the world, primarily to raise revenue for government expenditures, although they serve other purposes as well.” Tax is the government’s exercise of its authority to take part of its constituents’ income. Taxes are a primary source of a government’s revenue.

## Vertical Equity

Taxation is the imposition of compulsory levies on individuals or entities by governments and its primary purpose is to raise money for governments to spend, presumably on projects that grow and change nations for the better. Taxation does have other secondary roles in addition to its primary role of raising government revenues. One such secondary role taxation plays within a nation is the implementation of vertical equity. The concept of vertical equity gained considerable attention from Scottish economist Adam Smith. In his work, “An Inquiry into the Nature and Causes of the Wealth of Nations”, Smith discusses taxation and the “four maxims” that a country should strive for in its tax policy (Smith, 1776). Smith’s first maxim (which defines the concept of vertical equity) says that “taxes should be proportional to how much a person benefits from living in society. There should be proportionality across levels of income and sources of income such as rent, profit, and wages.” Smith makes the point that vertical equity is an important element of a country wanting to implement sound tax policy

(Mueller, 2016). Longtime financial writer Julia Kagan of Investopedia describes vertical equity as “a method of collecting income tax in which the taxes paid increase with the amount of earned income” (Kagan, 2018). It is clear that Smith’s discussion on proportionality and progressivity as elements of a sound tax policy have great influence when individuals discuss and define vertical equity today. Proponents of vertical equity believe that wealthier people (people with access to more resources) should pay more in taxes than those with less resources.

## Tax Classifications

To better understand vertical equity, below is a review of the different types of tax classifications. Taxes can be classified as progressive, regressive, or proportional.

### Progressive Tax

A tax is said to be progressive if “its average rate increases as income increases. Such a tax claims not only a larger absolute amount, but also a larger fraction or percentage of income as income increases” (Horizontal and Vertical Equity, 2006). Those who support a progressive tax system argue that implementing a progressive tax system “places the majority of an economic burden where it belongs” (Ayres, 11 Biggest Progressive Tax Pros and Cons, n.d.). Progressive tax system supporters point out that although poor and wealthy taxpayers would pay the same tax rate in a proportional tax system, “a greater share of the poor household’s disposable income is taken away” (Ayres, 11 Biggest Progressive Tax Pros and Cons, n.d.). Which begs the question, what is the difference between gross income and disposable income? Gross income “includes income from all sources. It's the amount of money, typically on a paycheck, before payroll taxes. However, total gross income comes from sources other than a weekly paycheck including bonuses. It also includes interest, dividends, alimony, pensions and annuities, rental property income, royalties, and any income derived from operating a business." (Elmblad, 2019). Disposable income is simply "the amount of net income a household or individual has available to invest, save or spend after income taxes" (Nickolas, 2019). Progressive tax systems aim to alleviate disposable income inequality by imposing a higher tax burden as an individual earns a higher gross income. Other benefits of a progressive tax system are the reduced risk of budget deficits (since the highest-earning individuals are taxed at the highest rates, the government earns more from taxing an individual earning $1 million a year at a progressive tax bracket of 37%  than it would from simply taxing these same earnings at a flat rate of 10%) and the increased spending power of low-income earners. The United States uses a progressive income tax system, though "not all taxes within the federal system are equally progressive" (Are federal taxes progressive? , n.d.).

**Regressive Tax**

A tax is said to be regressive if its "average rate declines as income increases. Such a tax takes a smaller and smaller proportion of income as income increases" (Horizontal and Vertical Equity, 2006). Those who support a regressive tax system argue that a regressive tax system "provides a very positive incentive to work harder" (Progressive and Regressive Taxes in Depth , 2016). In addition to incentivizing a country's citizens to work as hard as they possibly can to avoid paying more taxes, a regressive tax system simultaneously reduces the incentive for an individual to work less (or avoid earning more money due to the fear of paying higher taxes). On the surface, a regressive tax system would appear to incentivize a country's workforce to be more productive, although a study conducted by Tara Pandalai of Columbia University concluded that GDP in the United States increased from $243 billion in 1947 to $18,905 billion in 2017. This is equivalent to a 7780% increase in GDP over the aforementioned 70-year time span. Why is this relevant? While the United States never had a truly regressive tax system during those years, taxes were both raised and cut dramatically, and GDP still rose. While this shows that a regressive tax system has the ability to support economic growth over a substantial period of time, it does not show that a regressive tax system supports vertical equity or lends a hand to help those in poverty get out of poverty.

**Proportional Tax**

A tax is said to be proportional if "its average rate remains the same, regardless of the size of income" (Horizontal and Vertical Equity, 2006). Proportional tax proponents argue that a proportional tax system is "simpler" and fairer than progressive and regressive tax systems since all taxpayers are charged a similar portion of their income (Patrick Gleeson, 2019). Proportional tax proponents are also quick to point out that a proportional tax system reduces the effort required by any government entity that oversees the payment and collection of a country's taxes, such as the United States' Internal Revenue Service (IRS). Critics of proportional taxes are quick to point out that proportional taxes "aren't fair," meaning taxing someone who earns $15,000 a year at 10% is much more burdensome than taxing someone who earns $1,500,000 a year at 10%. Said differently, implementing a proportional tax system would not be an efficient way for a country to pursue vertical equity among its constituents. Other criticisms of a proportional tax system are that it would "eliminate multiple layers government bureaucracy, ignore income resources that the wealthy generally own, remove certain incentives from the tax code, change the financial profile of millions of households, change how people save for retirement, potentially decrease a country's GDP, possibly create a massive budget deficit, and enhance unwanted changes felt at all economic levels" (Ayres, 18 Flat Tax Pros and Cons , n.d.). Proportional taxes could be beneficial in that they could potentially enable larger savings from wealthier taxpayers, but also do a poor job of creating vertical equity by taxing all taxpayers at the same, flat rate.

## Tax Credits

A tax credit is "an incentive that lets a taxpayer subtract a set amount from their local, state, or federal tax liability" (Tax Credit, n.d.). A refundable tax credit is "called 'refundable' because (it) can reduce your tax liability below zero and allow you to receive a tax refund. If you qualify for a refundable credit and the amount of the credit is larger than the tax you owe, you will receive a refund for the difference" (Intuit, 2019). As income taxes go to zero for low-income taxpayers, refundable tax credits help lower the burden that low-income earners face from other taxes, such as payroll taxes. Refundable tax credits aim to redistribute the wealth collected through progressive taxation to low-income earners, and "are one of the most important tools available to state lawmakers working to make their states' tax codes more equitable" (Grundman, 2019). The implementation of refundable tax credits is a part of a country's aim to fulfill the vertical equity principle.

## Refundable Credits to Consider

The refundable credits to be explored in this paper are the Earned Income Tax Credit and the Child Tax Credit, as well as the proposed LIFT tax credit. The minimum wage is also to be explored, as it has been a tool for keeping those who are willing to work for a living out of poverty. Each of these tax credits create a different tax benefit for each of the individuals & families impacted by the credits. Each credit also has the ability to reach different groups of taxpayers based upon income level.

## Earned Income Tax Credit (EITC)

### History

The Earned Income Tax Credit was first enacted on a temporary basis in 1975. Upon its inception, the EITC was a "modest tax credit that provided financial assistance to low-income, working families with children" (Crandall-Hollick, The Earned Income Tax Credit (EITC): A Brief Legislative History, 2018). Since 1975, the Earned Income Tax Credit has evolved into "one of the federal government's largest antipoverty programs" (Crandall-Hollick, The Earned Income Tax Credit (EITC): A Brief Legislative History, 2018).

The enacting of the Earned Income Tax Credit can be credited to the debate many had in the early 70's about how to reform the United States' welfare program. Senator Russell Long (D-Louisiana) originally pitched the credit as a "work bonus" plan that would "supplement the wages of the poor" and that would "encourage the working poor to enter the labor force and thus reduce the number of families needing Aid to Families with Dependent Children (or AFDC, the name of the United States' welfare program)" (Crandall-Hollick, The Earned Income Tax Credit (EITC): A Brief Legislative History, 2018). The work bonus plan pitched by Senator Long “was renamed the Earned Income Tax Credit and enacted on a temporary basis as part of the Tax Reduction Act of 1975” (Crandall-Hollick, The Earned Income Tax Credit (EITC): A Brief Legislative History, 2018).

In 1975, the EITC was equal to 10% of the first $4,000 in earnings, or $400. The credit completely phased out for individuals earning more than $8,000 per year. Upon its inception, the Earned Income Tax Credit was viewed not only as a tool to lift people out of poverty, but also as a tool to stimulate economic growth “in the face of the 1974 recession and rising food and energy prices” (Crandall-Hollick, The Earned Income Tax Credit (EITC): A Brief Legislative History, 2018).

The Earned Income Tax Credit has been changed multiple times since 1975. Listed below are the changes that have increased the amount of the credit by changing the credit’s formula, according to Margot L. Crandall-Hollick of fas.org:

- P.L. 101-508 (approved November 5, 1990), which adjusted the credit amount for family size and created a credit for workers with no qualifying children;
- P.L. 103-66 (approved August 10,1993), which increased the maximum credit for tax filers with children and created a new credit formula for certain low-income, childless tax filers;
- P.L. 107-16 (approved June 7, 2001), which increased the income level at which the credit phased out for married tax filers in comparison to unmarried tax filers (referred to as “marriage penalty relief”); and

- P.L. 111-5 (approved February 17, 2009), which increased the credit amount for families with three or more children and expanded the marriage penalty relief enacted as part of P.L. 107-16.

The Earned Income Tax Credit has also changed in terms of the rules of eligibility to actually earn the credit. Listed below are the legislative changes that have changed the eligibility requirements for the EITC, again according to Margot L. Crandall-Hollick of fas.org:

- P.L. 103-66, which expanded the definition of an eligible EITC claimant to include certain individuals who had no qualifying children;
- P.L. 104-193 (approved August 22, 1996), which required tax filers to provide valid Social Security numbers (SSNs) for work purposes for themselves, spouses if married filing jointly, and any qualifying children, in order to be eligible for the credit; and
- P.L. 105-34 (approved August 5, 1997), which introduced additional compliance rules to reduce improper claims of the credit.

The Earned Income Tax Credit was created to help those living in or close to living in poverty. While the Earned Income Credit still is a boon to those earning a low income, it helps modest income earners as well. According to the IRS website, “The IRS urges workers who earned $55,952 or less in 2019 to see if they qualify” (Qualifying for the Earned Income Tax Credit , 2018). The IRS website also lists the maximum monetary refund amounts that individuals or families can obtain from the EITC:

- $529 with no qualifying children
- $3,526 with one qualifying child
- $5,828 with two qualifying children
- $6,557 with three or more qualifying children

The amount of the credit increases with the number of qualifying children a taxpayer has. A qualifying child is “a child who meets the six IRS requirements to be a dependent for tax purposes. The qualifying child may enable the taxpayer to take advantage of several tax benefits, such as Head of Household, the Earned Income Credit, the Child Care Credit, and the Child Tax Credit” (What is a "Qualifying Child"? , n.d.). The six requirements are as follows:

- Relationship – must be the taxpayer’s child or stepchild (by blood or adoption), foster child, sibling or step-sibling, or a descendant of any of these.
- Age – on Dec 31st, must be under the age of 19, or the age of 24 if a full-time student, or regardless of age, be permanently and totally disabled.
- Residence – the child must have lived with the taxpayer for more than 6 months of the tax year. Exceptions are made the children of separated or divorced parents. If a child was born or died during the year, they are considered to have lived with you the entire year.
- Support – refers to the child’s income, which must not have provided more than half of the child’s support for the tax year

- Joint Return – the child cannot file a joint return, unless the return is filed only to claim a refund of withholdings
- Citizenship – the child must be a US citizen, US resident alien, and the child must have a SSN by the date the return is filed. (What is a "Qualifying Child"? , n.d.)

**Expansion of the Earned Income Tax Credit**

The Earned Income Tax Credit incentivizes those with low to modest earnings potential to work and earn every dollar that they possibly can, so that they may receive the associated tax benefit that is offered by the Earned Income Tax Credit. Would expanding the Earned Income Tax Credit incentivize more Americans to work, and thus, pull more people up out of poverty? According to one columnist with Urban Institute, the answer to that question is yes. Elaine Maag of Urban Institute and Forbes Magazine explains: "Strong evidence shows that the Earned Income Tax Credit (EITC) has been an effective tool to increase work and reduce poverty, but as designed today, most benefits go to families with children. Policymakers could consider expanding the benefits of the EITC to low-income workers without custodial children. Policymakers on both sides of the aisle have previously favored an expansion like this" (Maag, Expanding the earned income tax credit could encourage, rather than require, more work, 2018). Maag also explains that "the President's Council of Economic Advisers (CEA) said that expanding work requirements for safety net programs would be the most effective way to lead more Americans to enter the workforce." Yet another article from the Center on Budget and Policy Priorities explains the benefits that twenty-nine states have seen in expanding the Earned Income Tax Credit. According to the article, "Twenty-nine states plus the District of

Columbia and Puerto Rico have enacted their own version of the federal Earned Income Tax Credit (EITC) to help working families earning low wages meet basic needs. State EITCs build on the success of the federal credit by keeping people on the job and reducing hardship for working families and children. This important state support also extends the federal EITC's well-documented long-term positive effects on children, boosting the nation's future economic prospects" (Waxman, 2019).

There has also been talk from federal legislators on both sides of the aisle about possibly expanding the Earned Income Tax Credit. As recently as 2017, there were two legislators in Senator Sherrod Brown (D-Ohio) and Representative Ro Khanna (D-California) that were looking to pass legislation to expand the Earned Income Tax Credit. The Grow American Incomes Now (GAIN) Act would have doubled the Earned Income Tax Credit for working families and increased the credit for childless workers by "almost sixfold" (RELEASE: SEN. SHERROD BROWN AND REP. RO KHANNA INTRODUCE LANDMARK LEGISLATION TO RAISE THE WAGES OF WORKING FAMILIES , 2017). Under the GAIN proposal, the maximum tax credit would've increased to $12,131 for families with three or more qualifying children; $10,783 with two qualifying children; $6,528 with one qualifying child; and $3,000 with no qualifying children. Currently, a family of three can receive a maximum credit of $6,318 and someone with no children can receive at most a $510 tax credit. Childless workers would be eligible for the credit until their income reaches just over $37,100 ($42,700 if married) (Maag, A Plan To Radically Expand The Earned Income Tax Credit , 2017).

## Child Tax Credit

**History**

The Child Tax Credit was enacted in 1997 in the Taxpayer Relief Act of 1997. The Child Tax Credit was originally a $500-per-child credit that was intended to provide “tax relief to middle- and upper-middle-income families” (The Child Tax Credit: Legislative History , 2018). The Child Tax Credit was initially nonrefundable (Crandall-Hollick, The Child Tax Credit: Current Law and Legislative History, 2016). The Economic Growth and Tax Relief Reconciliation Act of 2001 doubled the value of the credit per child (from $500 to $1,000) and made the credit refundable for families with earnings over $10,000. The American Recovery and Reinvestment Act of 2009 lowered the refundability threshold from $10,000 to $3,000 (The Child Tax Credit: Legislative History , 2018). The Tax Cuts and Jobs Act of 2017 implemented the following changes to the Child Tax Credit:

- The credit amount (per child) increased from $1,000 to $2,000.
- The CTC is refundable up to $1,400. It previously was not refundable.
- Children must have a Social Security Number to qualify.
- The earned income threshold to qualify for the CTC is $2,500.
- The CTC phases out at an income level of $200,000 for single filers and $400,000 for joint filers. In 2017 the phase-out level was $75,000 for single filers and $110,000 for joint filers.
- There is now a $500 (non-refundable) credit available for each non-child dependent (Josephson, 2019).

According to the Center on Budget and Policy Priorities, “the CTC is a powerful weapon against poverty. It lifted approximately 2.8 million people out of poverty in 2017, including about 1.6 million children, and lessened poverty for another 13.1 million people, including 6.7 million children. It lifts even more families with children out of poverty when combined with the Earned Income Tax Credit (EITC)” (Policy Basics: The Child Tax Credit , n.d.). This is good news when considering the positive effects raising family income can have on children living in or near poverty. Studies have linked even relatively modest improvements in family income for young children in poor families with lasting differences in health, education, and employment as the children grow up.  The findings from these studies include, but are not limited to, the following (excerpted from an August 2016 CBPP article):

“In a study of 16 demonstration projects in the 1990s, programs that lifted family income starting at ages 2 to 5 boosted children’s later academic achievement.  (Interestingly, demonstration projects that increased parental employment but not family income didn’t show such gains). A related analysis found that for every $3,000-a-year increase in income during the preschool years, poor children made additional academic progress equivalent to about two months of extra schooling. Infants born into families that benefited the most from EITC expansions in the 1990s had the greatest improvements in birth weight, an important factor for future health.

A major study examining the early years of the Food Stamp Program (now called SNAP) in the 1960s and 1970s, when the program operated in some counties but not others, provides further evidence that children’s health is particularly sensitive to safety net assistance in the first several years of life. Disadvantaged children who grew up in counties with access to food stamps showed significant reductions in adulthood in metabolic syndrome, a cluster of conditions including obesity, diabetes, and heart disease, compared to comparable children who lacked access to food stamps. The improvements were greatest for children who gained access to food stamp assistance before age 6. The study also found evidence that access to food stamps in early and later childhood raised children's high school graduation rate by an impressive 18 percentage points, and for girls, improved a combined measure of adult self-sufficiency based on outcomes such as educational attainment and earnings.

Another notable study found that higher income during childhood was correlated with greater earnings and employment in adulthood. For families with average incomes of less than $25,000 when their children were young, a $3,000 annual income boost (in 2005 dollars) from the children's prenatal year to age 5 was associated with a 17 percent increase in adult earnings and 135 additional work hours per year after the children reached age 25.

A recent historical study provides additional evidence of the benefits of increased income to disadvantaged children. The study found that children in families that received monthly cash assistance from the Mothers' Pensions program as early as the 1910s and 1920s experienced better nutrition, more education, and higher adult income than peers whose mothers applied but were rejected. The children whose families participated in the program were only half as likely to be underweight, more likely to finish high school, had 13 percent higher adult incomes, on average, and lived a year longer" (Chuck Marr, 2016).

**Expansion of the Child Tax Credit**

With the recent expansion the Child Tax Credit at the end of 2017 by the Tax Cuts and Jobs Act, it is unlikely the Credit will be expanded or modified again in the near future. However, as the previous section proves, there are numerous benefits to its expansion and to any credit that helps lift young children and their families out of poverty, as the Child Tax Credit does. Current proposals are discussed below.

**LIFT (Livable Incomes for Families Today) the Middle Class Act**

**History**

California Senator and current 2020 United States presidential hopeful Kamala Harris authored a piece of legislation in 2018 titled "LIFT (Livable Incomes for Families Today) the Middle Class Act." Senator Harris' bill can be surmised in the following points:

- Provide up to $6,000 a year per family, in the form of a refundable tax credit.
    - Tax credit applies to households earning under $100,000 annually.
    - Tax credit provides up to $3,000 for single filers earning under $50,000 per year.
- The tax cut can be accessed each month or at the end of the year.
    - Families can receive up to $500 per month.
    - Individuals can receive up to $250 per month.
- The Institute on Taxation and Economic Policy estimates the LIFT Act would impact one in every two workers and two out of every three children in America. In addition, ITEP estimates approximately 1 million Pell Grant eligible students would qualify for the

credit of up to $3,000. (Harris Proposes Bold Relief for Families Amid Rising Costs of Living , 2018)

While LIFT does not exclusively target those living in or in close proximity to poverty, this new tax credit would certainly help lift millions up out of poverty by a very substantial margin, as the proposed $3,000 refund is more than double that of the $1,400 refundable portion of the Child Tax Credit. While this bill is ambitious and would face steep scrutinization before even reaching the Senate Floor for a vote, it is noteworthy that legislators are still trying to figure out a way to redistribute wealth to those with lower incomes via (in this case, new) tax credits.

## Minimum Wage

### Discussion

While much of the discussion concerning wealth redistribution for low-income people so far has focused on tax law and refundable tax credits, it is also important to consider the impact both federal and state minimum wages has on low-income earners. It is important to consider how a modest increase to the federal minimum wage might positively impact low-income taxpayers in ways similar to how refundable tax credits do.

### History

The Fair Labor Standards Act (FLSA) established the first federal minimum wage in the United States in 1938 (What is the history of the minimum wage? , 2018). The table below shows the evolution of the federal minimum wage, from 1938 to today:

Minimum hourly wage of workers in jobs first covered by

| *Effective Date* | *1938 Act* [1] | *1961 Amendments* [2] | *1966 and Subsequent Amendments* [3] | |
|---|---|---|---|---|
| | | | *Nonfarm* | *Farm* |
| Oct 24, 1938 | $0.25 | | | |
| Oct 24, 1939 | $0.30 | | | |
| Oct 24, 1945 | $0.40 | | | |
| Jan 25, 1950 | $0.75 | | | |
| Mar 1, 1956 | $1.00 | | | |
| Sep 3, 1961 | $1.15 | $1.00 | | |
| Sep 3, 1963 | $1.25 | | | |
| Sep 3, 1964 | | $1.15 | | |
| Sep 3, 1965 | | $1.25 | | |
| Feb 1, 1967 | $1.40 | $1.40 | $1.00 | $1.00 |
| Feb 1, 1968 | $1.60 | $1.60 | $1.15 | $1.15 |
| Feb 1, 1969 | | | $1.30 | $1.30 |
| Feb 1, 1970 | | | $1.45 | |
| Feb 1, 1971 | | | $1.60 | |
| May 1, 1974 | $2.00 | $2.00 | $1.90 | $1.60 |
| Jan. 1, 1975 | $2.10 | $2.10 | $2.00 | $1.80 |
| Jan 1, 1976 | $2.30 | $2.30 | $2.20 | $2.00 |
| Jan 1, 1977 | | | $2.30 | $2.20 |
| Jan 1, 1978 | $2.65 for all covered, nonexempt workers | | | |
| Jan 1, 1979 | $2.90 for all covered, nonexempt workers | | | |
| Jan 1, 1980 | $3.10 for all covered, nonexempt workers | | | |
| Jan 1, 1981 | $3.35 for all covered, nonexempt workers | | | |
| Apr 1, 1990[4] | $3.80 for all covered, nonexempt workers | | | |
| Apr 1, 1991 | $4.25 for all covered, nonexempt workers | | | |
| Oct 1, 1996 | $4.75 for all covered, nonexempt workers | | | |
| Sep 1, 1997[5] | $5.15 for all covered, nonexempt workers | | | |
| Jul 24, 2007 | $5.85 for all covered, nonexempt workers | | | |
| Jul 24, 2008 | $6.55 for all covered, nonexempt workers | | | |
| Jul 24, 2009 | $7.25 for all covered, nonexempt workers | | | |

(Wage and Hour Division , n.d.).

When President Franklin Delano Roosevelt signed the Fair Labor Standards Act into law in 1938, the move was considered landmark. “Against a history of judicial opposition, the depression-born FLSA had survived, not unscathed, more than a year of Congressional altercation. In its final form, the act applied to industries whose combined employment represented only about one-fifth of the labor force. In these industries, it banned oppressive child labor and set the minimum hourly wage at 25 cents, and the maximum workweek at 44 hours” (Grossman, n.d.). It is hard to imagine in 2019 that a bill that called for a minimum wage of 25 cents an hour that only affected 20% of the labor force was a subject of hot debate 80 years ago.

**Expansion of the Minimum Wage**

According to the UC Davis Center for Poverty Research, 29 states and the District of Columbia have minimum wage rates that are higher than the federal rate (What is the history of the minimum wage? , 2018). While the federal minimum wage is unlikely to see an increase in the near future, it is of note that 22 states and the District of Columbia raised the minimum wage at the beginning of 2019. This wage hike was estimated to affect over 17 million employees (Herron, 2018). The state with the largest minimum wage after these wage increases was New York, which increased its minimum wage to $15 for large employers located in New York City, and $13.50 for small employers located in New York City. While the cost of living is much higher in New York City than in many other places in the U.S., and while the minimum wage across other parts of New York state is only between $11.10-$12.00, it is still noteworthy that a $15 minimum wage has finally happened somewhere in the United States. And while it is by no means feasible for every state to approach the minimum wage rates that

New York has just implemented, it is encouraging to see state legislatures increase their state's minimum wage when necessary.

## Discussion and Conclusion

Even with the expansion of the Earned Income Tax Credit and the Child Tax Credit in the Tax Cuts and Jobs Act of 2017, it is still noteworthy that refundable credit expansion is currently being discussed in Washington, D.C. According to Elaine Maag, contributor for the Urban Institute and Forbes Magazine, "Senate Democrats have rallied around the Working Families Tax Relief Act (WFTRA) that would significantly expand the Earned Income Tax Credit (EITC) and more modestly boost the Child Tax Credit (CTC)" (Maag, Senate Democrats' Plan To Expand Refundable Tax Credits Builds On Existing Ideas , 2019). While it is encouraging to see the expansion of these credits being supported by lawmakers, no expansion will (or should, in my opinion) come unless there is bipartisan support and the plan to expand these credits is economically feasible

A raise in the federal minimum wage has also been tossed around, as Democrats in the House and Senate introduced legislation Jan. 16 that would gradually increase the federal minimum wage from $7.25 an hour to $15 an hour "over the next five years" (Maurer, 2019). Again, it is encouraging to see lawmakers acknowledge income inequality and want to make a difference for low-income earners, but no expansion should come (in my opinion) radically or without economic merit.

In the United States' utilization of a progressive tax system, offering of refundable tax credits to its taxpaying constituents, and implementation of a federal minimum wage, the U.S.

has taken steps as a nation to show that it values vertical equity and that it values lifting as many people out of poverty and the negative conditions associated with poverty as it possibly can. The Earned Income Tax Credit, the Child Tax Credit, and the federal minimum wage have all seen increases since their respective dates of inception. The LIFT income tax credit bill started by Senator Kamala Harris is a novel idea, even if it never comes to fruition. The question all of us who have a stake in the United States (both legislators and citizens alike) must continue to ask ourselves is this: Are we doing enough to help our lower-income earners?

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